

## Message Text

LIMITED OFFICIAL USE

PAGE 01 JIDDA 06007 01 OF 02 191113Z  
ACTION NEA-10

INFO OCT-01 AF-10 EUR-12 ISO-00 SP-02 ICA-11 AID-05  
EB-08 NSC-05 TRSE-00 SS-15 STR-07 OMB-01 CEA-01  
CIAE-00 COME-00 FRB-03 INR-10 NSAE-00 XMB-02  
OPIC-03 LAB-04 SIL-01 L-03 H-01 /115 W  
-----058144 191125Z /23

P 190520Z AUG 78  
FM AMEMBASSY JIDDA  
TO SECSTATE WASHDC 3038  
INFO AMEMBASSY ABU DHABI  
AMEMBASSY ALGIERS  
AMEMBASSY AMMAN  
AMEMBASSY ATHENS  
USINT BAGHDAD  
AMEMBASSY CAIRO  
AMEMBASSY DOHA  
AMEMBASSY KHARTOUM  
AMEMBASSY KUWAIT  
AMEMBASSY MUSCAT  
AMEMBASSY MANAMA  
AMEMBASSY RABAT  
AMEMBASSY SANA  
AMEMBASSY TEL AVIV  
AMEMBASSY TRIPOLI  
AMEMBASSY TUNIS  
AMCONSUL ALEXANDRIA  
AMCONSUL DHAHRAN  
USLO RIYADH

LIMITED OFFICIAL USE SECTION 1 OF 2 JIDDA 6007

E.O. 11652: N/A  
TAGS: ETRD, SA, US  
SUBJECT: ARAB BOYCOTT: TRADE IMPACT OF ANTI-BOYCOTT LEGISLATION

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 JIDDA 06007 01 OF 02 191113Z

REF: (A) STATE 194719 (B) STATE 083762

1. THE IMPACT OF EAA ANTI-BOYCOTT REGULATIONS HAS BEEN  
MITIGATED FOR THE SHORT RUN, LARGELY BECAUSE OF HIGH-LEVEL  
INTEREST IN THE PROBLEM FOLLOWING THE PRESIDENT'S VISIT IN  
JANURARY. AS A RESULT, THE SAG HAS APPROVED L/C LANGUAGE AND  
A STANDARD CONTRACT CLAUSE WHICH ARE COMPATIBLE WITH THE

EAA REGULATIONS. NEVERTHELESS, THERE ARE DISTURBING SIGNS THAT THE LEGISLATION MAY BE AFFECTING THE DIRECTION OF SAUDI TRADING PATTERNS WHICH COULD HAVE MAJOR LONG-TERM IMPACT.

2. IBM ESTIMATES A 20 TO 30 MILLION DOLLAR DIVERSION OF SALES AWAY FROM U.S. SOURCES BECAUSE OF THE REGULATIONS, AND ARAMCO STATES HAT CONCERN ABOUT THE PROSPECTIVE LEGISLATION WAS THE MAIN REASON U.S. SUPPLIERS CAPTURED ONLY 1 PERCENT OUT OF THE 16 PERCENT INCREASE IN THE COMPANY'S 1977 IMPORTS. BUT WHAT IS MORE DISTURBING IS THAT FIRMS THAT HAVE SOUGHT HELP FROM THE EMBASSY OR THE SAUDI BOYCOTT OFFICE HAVE BEEN, FOR THE MOST PART, THOSE THAT ARE BOTH LARGE AND WELL ESTABLISHED IN THE KINGDOM. THIS SUGGESTS THAT SMALL AND NEW-TO-MARKET FIRMS ARE BEING DISCOURAGED BY REGULATIONS BEFORE THEY EVEN GET HERE. WHILE THE SHORT-TERM IMPACT OF THE EAA REGULATIONS ON OVERALL FIGURES HAS BEEN SLIGHT, ITS IMPACT ON THE GROWING FRINGE OF SAUDI TRADE MUST BE MONITORED CLOSELY.

3. THE FOLLOWING COMMENTS ARE KEYED TO THE SEQUENCE OF QUESTIONS IN PARA 4 OF REFTEL A.

A. THE PROHIBITION ON SUPPLYING INFORMATION IS THE GREATEST DETRIMENT TO U.S. TRADE IN SAUDI ARABIA. THE SAUDI BOYCOTT DIRECTOR, WHO FEELS THAT FORD'S BLACKLISTING IS UNJUSTIFIED, HAS NOT BEEN ABLE TO GET ACCESS TO INFORMATION HE FEELS HE NEEDS TO DEFEND THE COMPANY IN THE ARAB BOYCOTT LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 JIDDA 06007 01 OF 02 191113Z

LEAGUE. IMPERMISSIBLE BOYCOTT QUESTIONS REMAIN ON MOST MINISTRY PREQUALIFICATION FORMS, AND IT IS DIFFICULT FRO A U.S. FIRM TO GET A WAIVER. THIS TENDS TO DISCOURAGE NEW-TOMARKET FIRMS AND HAS PREVENTED THE EMBASSY/USDOC TO MAKE THSE FORMS AVAILABLE TO U.S. FIRMS AS A WAY TO ENNCOURAGE THEM TO MAKE THE FIRST STEP IN WINNING GOVERNMENT PROJECT CONTRACTS. THE PRE-QUALIFICATION FORM ISSUE HAS NOT BEEN SOLVED SATISFACTORILY BECAUSE THE SAG HAS CHOSEN TO RESPOND TO THE EAA BY PROMISING AD HOC SOLUTIONS TO PROBLEMS AS THEY ARISE RATHER THAN BY CHANGING THE LANGUAGE ON THE FORMS. AS A RESULT, GETTING A WAIVER IS DIFFICULT AND MAY HAVE RESULTED IN AT LEAST TWO LEADING U.S. CONTRACTORS FAILING TO MAKE THE SHORT-LIST FOR THE HEJAZ RAILROAD PROJECT.

B. THE SAG RESPONDED QUICKLY TO APPROVE DOCUMENTATION LANGUAGE THAT WOULD AVOID A COLLISION WITH U.S. LAW. WHERE NO FORMAL CHANGES HAVE BEEN MADE, EMBASSY HAS BEEN ASSURED THAT PROBLEMS WILL BE WORKED OUT IN AN AD HOC MANNER, AND THAT FIRMS WILL NOT BE ASKED BOYCOTT QUESTIONS BY SAG AGENCIES. THE BOYCOTT OFFICE HAS, IN FACT, SHOWN ITSELF WILLING TO LIMIT ITS EXAMINATION OF A NEW-TO-MARKET FIRM TO MERELY CHECKING THE BLACKLIST RATHER THAN ASKING IMPERMISSIBLE QUESTIONS. IT HAS ALSO ASSISTED U.S. FIRMS HAVING PROBLEMS IN CONVINCING

SAUDI MINISTRIES THAT THE NEW LANGUAGE WAS INDEED AUTHENTIC. ALSO, THE BOYCOTT DIRECTOR MOVED PROMPTLY TO ARRANGE A BLANKET EXEMPTION FOR DEFENSE-RELATED FIRMS AND AMDE A SPECIAL EXCEPTION FOR WESTERN ELECTRIC BECAUSE OF ITS IMPORTANCE TO SAUDI DEVELOPMENT.

HOWEVER, MOST OF THE INITIAL MOMENTUM GENERATED BY THE PRESIDENT'S VISIT IN JNAUARY HAS RUN OUT. THE GOVERNMENT FEELS THAT IT HAS ALREADY MET THE U.S. MORE THAN HALF WAY ON THE ISSUE. EMBASSY EFFORTS TO GET WAIVERS ON PREQUALIFICATION LANGUAGE HAVE BEEN LARGELY UNSUCCESSFUL, AND SUGGESTIONS THAT MINOR MODIFICATIONS IN SAUDI DRAFT LANGUAGE COULD ELIMINATE CONFLICTS WITH THE TREASURY ANTI-BOYCOTT PROVISION HAS FALLEN ON DEAF EARS. THE SAG FEELS IT HAS GONE AS FAR AS IT CAN. THE GOVERNEMNT IS INCREASINGLY CONCERNED ABOUT NOT MOVING TOO FAR LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 JIDDA 06007 01 OF 02 191113Z

OUT OF LINE WITH OTHER ARAB STATES ON THE QUESTION OF SUPPORT FOR THE PALESTINIANS, AND IS BECOMING MORE HESITANT ABOUT MAKING ADDITIONAL ACCOMMODATIONS ON BOYCOTT

QUESTIONS.

C. UNILATERAL SELECTION: MAJOR PURCHASING DECISIONS HAVE TYPICALLY BEEN BY SAUDI MINISTRIES WHICH SELECT FROM LISTS OF QUALIFIED CONTRACTORS OR SUPPLIERS PREPARED BY EXPATRIATE CONSULTING FIRMS. THE UNILATERAL SELECTION FORMAT APPEARS TO FIT IN WELL WITH CURRENT PRACTICE. AN AMERICAN CONSULTANT WOULD HAVE NO DIFFICULTY REFUSING TO EMPLOY BOYCOTT CRITERIA IN PREPARING THE LISTS.

D. THE EAA REGULATIONS APPEAR TO DISCRIMINATE AGAINST SMALL FIRMS WHICH LACK LEGAL STAFFS TO GUIDE THEM THROUGH THE UNCERTAINTIES AND PAPERWORK. THIS IS SUGGESTED BY THE FACT THAT MOST REQUESTS FOR BOYCOTT ASSISTANCE HAVE COME FROM LARGER FIRMS AND THA SMALL AND NEW-TO-MARKET FIRMS TEND TO BE UNINFORMED ABOUT BASIC BOYCOTT PROBLEMS. OF COURSE, THE FULL IMPACT ON SMALL SUPPLIERS MAY BE BUFFERED TO SOME EXTENT BY LARGER AND MORE SOPHISTICATED INTERMEDIARY FIRMS. BUT THERE IS A NEED TO EXAMINE HOW ANTI-BOYCOTT LEGISLATION IS AFFECTING FIRMS THAT MIGHT HAVE BEEN DETERRED BEFORE EVEN COMING TO THE KINGDOM.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 JIDDA 06007 02 OF 02 191100Z

ACTION NEA-10

INFO OCT-01 AF-10 EUR-12 ISO-00 SP-02 ICA-11 AID-05

EB-08 NSC-05 TRSE-00 SS-15 STR-07 OMB-01 CEA-01

CIAE-00 COME-00 FRB-03 INR-10 NSAE-00 XMB-02

OPIC-03 LAB-04 SIL-01 L-03 H-01 /115 W

-----058038 191124Z /23

P 190520Z AUG 78

FM AMEMBASSY JIDDA

TO SECSTATE WASHDC 3040

INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

AMEMBASSY AMMAN

AMEMBASSY ATHENS

USINT BAGHDAD

AMEMBASSY CAIRO

AMEMBASSY DOHA

AMEMBASSY KHARTOUM

AMEMBASSY KUWAIT

AMEMBASSY MANAMA

AMEMBASSY MUSCAT

AMEMBASSY RABAT

AMEMBASSY SANA

AMEMBASSY TEL AVIV

AMEMBASSY TRIPOLI

AMEMBASSY TUNIS

AMCONSUL ALEXANDRIA

AMCONSUL DHAHRAN

USLO RIYADH

LIMITED OFFICIAL USE SECTION 2 OF 2 JIDDA 6007

E.O. 11652: N/A

TAGS: ETRD, SA, US

SUBJECT: ARAB BOYCOTT: TRADE IMPACT OF ANTI-BOYCOTT LEGISLATION

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 JIDDA 06007 02 OF 02 191100Z

E. IT IS TOO SOON TO GET A READING ON THE REACTION TO THE NEW REPORTING REQUIREMENTS. U.S. FIRMS HAVE TOLD US IN THE PAST THAT THEY ARE SO CONCERNED ABOUT PUBLIC RELATIONS THAT THEY AVOID SITUATIONS WHICH MIGHT LEAD TO A NEED TO FILE A REPORT. ALSO, SAUDI GOVERNMENT OFFICIALS HAVE CRITICIZED U.S. BUSINESSMEN FOR BEING MORE CAUTIOUS THAN REQUIRED BY LAW. SO, THERE IS SOME INDICATION THAT MORE COMPREHENSIVE REPORTING REQUIREMENTS MAY CHILL SALES EFFORTS TO SOME EXTENT.

F. TWO CASES HAVE COME TO OUR ATTENTION WHICH INDICATE THAT FALSE ACCUSATIONS AND MISINFORMATION

ABOUT THE BOYCOTT MAY BE BEING USED AGAINST U.S. FIRMS BY COMPETITORS:

(1) THE EXISTENCE OF WESTERN ELECTRIC'S NAME ON THE BLACKLIST WAS IGNORED UNTIL A COMPETITOR BROUGHT IT TO THE ATTENTION OF THE SAUDI MINISTRY OF PTT.

(2) ONE OF THE LARGEST PRIME CONTRACTORS IN COUNTRY, PHILLIP HOLTZMAN OF GERMANY, HAS INSTRUCTED SUBCONTRACTORS TO AVOID PROCUREMENT FROM THE U.S. BECAUSE BOYCOTT PROBLEMS MAKE U.S. SUPPLIERS UNRELIABLE. HOLTZMAN HAS MAINTAINED THIS POSITION EVEN THOUGH IT HAS RECEIVED ASSURANCES FROM SAUDI CUSTOMS THAT THERE IS NO DIFFICULTY. WHILE TACTICS SUCH AS THESE ARE UNSAVORY, THEY HAVE TO BE EXPECTED IN CUTTHROAT INTERNATIONAL COMPETITION.

G. BUSINESSMEN STILL SEEM TO BE DIGESTING THE NEW REGULATIONS AND IT IS TOO SOON TO TELL WHETHER THERE ARE INHERENT AMBIGUITIES THAT WILL CAUSE DIFFICULTY. THE OVERLAP WITH THE TREASURY REGULATIONS IS UNFORTUNATE IN THAT SAUDI L/C LANGUAGE, WHICH MEETS EAA REQUIREMENTS, DOES NOT MEET TREASURY REQUIREMENTS (REFTEL B).

H. THE COLLISION BETWEEN SAUDI AND U.S. LAW THAT COULD HAVE THROWN US FIRMS OUT OF THE KINGDOM HAS BEEN AVOIDED. THE EFFECT OF THE REGULATIONS THEMSELVES IS FAR LESS SIGNIFICANT THAN THE PSYCHOLOGICAL IMPACT OF THE PASSING OF THE LEGISLATION LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 JIDDA 06007 02 OF 02 191100Z

ITSELF. SAUDI GOV OFFICIALS TELL US THAT THE EXPERIENCE JOLTED THEM OUT OF THEIR TRADITIONAL RELIANCE ON U.S. PRODUCTS AND HASTENED A TREND TOWARD DIVERSIFICATION OF IMPORTS.

I. IT IS DIFFICULT TO COME UP WITH A DOLLAR ESTIMATE OF ANTI-BOYCOTT IMPACT ON US-SAUDI TRADE. AVAILABLE TRADE STATISTICS, AS TO US MARKET SHARE, ARE TOO UNRELIABLE TO PICK UP LONG-TERM TRENDS THAT MAY BE DEVELOPING. IN ADDITION, EMBASSY EXPERIENCE IN ITSELF IS AN INSUFFICIENT BASIS FOR ESTIMATE BECAUSE MUCH OF THE IMPACT MAY BE ON FIRMS WHO ARE DISCOURAGED BEFORE COMING TO SAUDI MARKET. EMBASSY AGREES IN PRINCIPLE THAT EFFORT SHOULD BE MADE TO MONITOR IMPACT OF EAA LEGISLATION, BUT FEELS THAT EMPHASIS ON SHORT-TERM IMPACT MAY RESULT IN DECEPTIVELY OPTIMISTIC VIEW OF THE CONSEQUENCE ON TRADING PATTERNS.

4. PUBLIC DISCLOSURE OF INFORMATION IN PARA 3 A AND B OF THIS TELEGRAM SHOULD BE CONSIDERED SENSITIVE MATERIAL AND NOT MADE PUBLIC. NAMES OF FIRMS IN PARA 3F SHOULD LIKEWISE NOT BE DISCLOSED. WEST

LIMITED OFFICIAL USE

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 jan 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** ARAB STATES, BOYCOTTS, GOVERNMENT REACTIONS, US CONGRESSIONAL LEGISLATIVE BILLS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 19 aug 1978  
**Decaption Date:** 01 jan 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 20 Mar 2014  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1978JIDDA06007  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** UPGRADED PER MEMO P840019-0505  
**Executive Order:** R1 19880101 MCMANAWAY, C E  
**Errors:** N/A  
**Expiration:**  
**Film Number:** P840019-0519, D780340-0110  
**Format:** TEL  
**From:** JIDDA  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1978/newtext/t19780845/aaaabkzy.tel  
**Line Count:** 272  
**Litigation Code IDs:**  
**Litigation Codes:**  
**Litigation History:**  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Message ID:** 4df05160-c288-dd11-92da-001cc4696bcc  
**Office:** ACTION NEA  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** UNCLASSIFIED  
**Original Previous Handling Restrictions:** LOU  
**Page Count:** 5  
**Previous Channel Indicators:** n/a  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** LOU  
**Reference:** 78 STATE 194719, 78 STATE 83762  
**Retention:** 0  
**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 28 jun 2005  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 1684967  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** ARAB BOYCOTT: TRADE IMPACT OF ANTI-BOYCOTT LEGISLATION  
**TAGS:** ETRD, SA, US  
**To:** STATE ABU DHABI  
**Type:** TE  
**vdkgvwkey:** odb://SAS/SAS.dbo.SAS\_Docs/4df05160-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014